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IN THE

Supreme Court of the United States

OCTOBER TERM, 1983

C.M. UBERMAN ENTERPRISES, INC., *et al.*,
Petitioners,

v.

HISTORIC FIGURES, INC., *et al.*,
Respondents.

REPLY TO OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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The Court of Appeals' decision in this case departs from two fundamental policies of federal law: First, the decision would depart from the heretofore uniform principle that wrongdoers may not use federal courts to secure the fruits of their unlawful conduct; second, the decision would prevent a buyer who is the victim of an illegal tie-in from pursuing its statutory remedies on the erroneous ground that the prohibition against tie-ins was not intended to protect the buyer from "pecuniary" injury. In their Brief in Opposition, Respondents have not addressed the fundamental policy issues, and their arguments in defense of the Court of Appeals' decision simply highlight the confusion in the area and the need for Supreme Court review.

I. THE COURT OF APPEALS' DECISION ON THE ILLEGALITY DEFENSE CANNOT BE RECONCILED WITH THE PRIOR CASES, INCLUDING THIS COURT'S DECISION IN *MULLINS*.

In the Petition, we urged the Court to grant certiorari to reaffirm the long-standing principle that federal courts

do not aid wrongdoers to secure the fruits of their unlawful conduct and to remove the uncertainty about the contours of that principle.

Respondents have not challenged the importance of that principle in their Opposition. They have, instead, rested their defense of the Court of Appeals' decision entirely on the assertion that "[t]here is nothing unlawful about the contracts themselves . . . . Rather the antitrust illegality claimed by petitioners is entirely external to the contracts." Opp. at 5. This assertion is unsound and is inconsistent with prior decisions of this Court.

Like the Court of Appeals, Respondents attempt to distinguish contracts that courts will enforce from those that courts will not enforce by using terms like "external" and "intelligible transaction," but nowhere do they state precisely what those terms means. They appear to believe that the test is whether a contract sought to be enforced is illegal "on its face." *See* Opp. at 9 n.5 and 10 n.7; App. A at 23a. But that test would require federal courts to enforce countless illegal contracts so long as they were cleverly drafted to disguise their unlawful features, and it cannot be reconciled with this Court's decisions in *Kaiser Steel Corp v. Mullins*, 455 U.S. 72 (1982)[1]

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[1] In *Mullins*, this Court remanded the case for proceedings to determine whether the contract sought to be enforced violated Section 8(e) of the NLRA, even though that question could not be answered from the face of the agreement but rather required an analysis of "all the surrounding circumstances." *National Woodwork Manufacturers Association v. NLRB*, 386 U.S. 612, 644-45 (1967); *see* 455 U.S. at 79, 82-86.

The Court in *Mullins* also rejected the argument that the illegality defense applies only if the promises sought to be enforced are unlawful "in themselves." The Court reasoned that the petitioner there "did not make a naked promise to pay money" and that the enforceability of the promise depended upon the context in which it was made. 455 U.S. at 79; *see* Petition at 9.

and *Continental Wall Paper Co. v. Louis Voight & Sons Co.*, 212 U.S. 227 (1909).[2]

The question of which agreements may be enforced when the dealings between the parties have been tainted by illegality is an important one which should be answered. The correct distinction is this: A contract is "external" or "collateral" to the violation—and may therefore be enforced—only when the contract and its enforcement are irrelevant to the violation of law. Thus, for example, in *Kelly v. Kosuga*, 358 U.S. 516 (1959), the Court enforced an agreement to purchase onions even though the parties had made a separate, illegal agreement to withhold goods from the market. That agreement, the so-called "nondelivery agreement," would have been illegal even if there had been no sale agreement, and enforcement of the sale agreement in no way furthered the illegal scheme.

In this case, in contrast, Respondents seek to enforce Petitioners' promise to buy franchise services. That promise was illegally tied to the sale of display figures. Without that promise, there would be no violation of federal law; indeed, the very purpose of the unlawful tie-in arrangement was to require Petitioners to buy franchise services and the illegality tainted the terms on which they agreed to do so. Enforcing the tied agreement thus would not only enable Respondents to reap the fruits of their illegal scheme, but also would put the Court in the position of aiding in the consummation of a violation of federal law.[3]

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[2] In *Continental Wall*, the Court sustained the illegality defense to a contract for the purchase of goods on the ground that the contract, although not illegal on its face, *"was intended to be based upon agreements that were and are essential parts of an illegal scheme."* 212 U.S. at 261 (emphasis in the original). The Court held that the agreement was not a "collateral, independent contract." *Id.*

[3] Respondents' inability to understand the distinction between this case and *Kelly* is reflected also in their erroneous assertion

By the same token, the lease agreement cannot properly be enforced in this case. Petitioners have alleged, and this Court should assume, that that agreement is the very means used by Respondents to perpetuate their monopoly and that the lease payments are fruits of their illegal scheme to monopolize the display figures market. The lease agreement cannot reasonably be said to be "collateral" or "external" to the alleged violation.[4]

In short, the flaw in both the Court of Appeals' decision and Respondents' defense of it is their failure to recognize that the violation of law and the contracts sought to be enforced in this case are inextricably intertwined. This same flaw is reflected in Respondents' heavy and mistaken reliance on the Fifth Circuit's decision in *Kaiser Aluminum & Chemical Sales, Inc. v. Avondale Shipyards, Inc.*, 677 F.2d 1045 (5th Cir. 1982), *cert. denied*, 103 S. Ct. 729 (1983). In that case, the plaintiff sought to enforce the changes provision of a construction contract; the defendant argued that that provision was

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that a reversal of the Court of Appeals in this case would permit an antitrust defense to be raised "in every suit to collect payment for goods and services" (Opp. at 10). To the contrary, reversing the Court of Appeals' decision would not render all contracts unenforceable, nor would it abolish the distinction between unenforceable contracts and those that are "collateral" or "external" to the violation of law. It would simply end the confusion about the distinction by making clear that the illegality defense is available where, as here, the contract sought to be enforced is a necessary element in the violation of federal law.

[4] The Court of Appeals' decision not only misunderstands the relationship between the contracts and the violation of law, but also is internally inconsistent. When focusing on the tying arrangement, the Court of Appeals attempted to distinguish *Mullins* by arguing that *Mullins* applies where the promise sought to be enforced is the *means* of enforcing an illegal restraint. App. A at 23a. In discussing the illegal lease agreement, however, the Court overlooked that distinction and held that Petitioners could not defend against enforcement of the lease even on the ground that it is an illegal *means* of perpetuating and enforcing Respondents' monopoly. App. A at 24a-25a.

part of a contractual arrangement in which the plaintiff had illegally tied its sale of insulation spray to the buyer's purchase of an aluminum tank. The Court correctly rejected the illegality defense, noting that the changes provision had nothing to do with the violation—it was not illegal; it did not impose any illegal overcharges on the buyer; it was not extracted by coercion; and it was not the unlawful fruit of the illegal scheme. As the Court explained, the buyer "does *not* allege that [the seller] is requesting an *inflated price* for the [tying product] *nor* does [the buyer] allege that the [product] is a *tied item*." 677 F.2d at 1060 (emphasis added). Quite a different result is called for where, as here, the contract sought to be enforced is the illegally tied contract that imposes illegal overcharges on the buyer.

Respondents and the Court of Appeals are confused about the proper distinction between agreements that may not be enforced and agreements that are truly collateral or external to the violation of federal law. Their confusion undermines the heretofore unbroken principle that federal courts do not act in furtherance of violations of federal law or lend their aid to wrongdoers seeking to reap the fruits of such violations. This Court should grant certiorari to clarify this important area of federal law.

II. THE APPELLATE COURT DECISION UPHOLDING THE STATUTE OF LIMITATIONS DEFENSE CONFLICTS WITH TWO LINES OF CASES: THE SUBSTANTIVE TIE-IN CASES AND THE CONTINUING BENEFITS CASES.

In the Petition, we urged the Court to grant certiorari to clarify the rights of a buyer to pursue its antitrust remedies where a seller has continued to require payments pursuant to an illegal contract during the statutory period. Respondents' Opposition badly misreads

this Court's recent decision in *Jefferson Parish Hospital District No. 2 v. Hyde*, 104 S. Ct. 1551 (1984), and fails to reconcile the circuit court cases applying the statute of limitations to illegal executory contracts.

A. The Court Should Grant Certiorari To Reverse The Erroneous Distinction Between "Pecuniary" Harm And "Antitrust" Harm.

In their Opposition, Respondents assert that "the critical element in determining the timeliness of an antitrust suit is the conduct of the defendant . . . ."[5] But they do not deny that they took active steps to enforce the illegal contracts during the statutory period. Nor do Respondents take the position that an antitrust cause of action arises only when the illegal contract is entered into, for they concede—as they must—that any subsequent effort to enforce the agreement that impairs competition in the marketplace creates a new cause of action. Opp. at 13, 14, 15 n.11. *See, e.g., Hanover Shoe, Inc. v. United Shoe Machinery Corp.*, 392 U.S. 481 (1968).

Thus, Respondents' argument, like the Court of Appeals,' comes down to the proposition that their enforcement of the contracts during the statutory period imposed only "pecuniary" harm, and not "antitrust" harm, on Petitioners and thus did not create a cause of action. Opp. at 13. According to Respondents, the only antitrust harm imposed by illegal tie-ins is the foreclosure of competition in the tied product market. *Id.* at 14. But the case Respondents cite for that proposition, *Jefferson Parish Hospital District No. 2 v. Hyde*, 104 S. Ct. 1551 (1984), stands for the opposite proposition.

This Court explained in *Jefferson Parish* that the antitrust harm from an illegal tie-in includes extraction of an unlawful price from the buyer. Indeed, according

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[5] Opp. at 14; *see also id.* at 13, *quoting Zenith Radio Corp. v. Hazeltine Research, Inc.*, 401 U.S. 321, 338 (1971).

to the Court, "the essential characteristic of an invalid tying arrangement" is that the purchaser is forced to buy a tied product that it either did not want or would have "preferred to purchase elsewhere on different terms." As a result, the buyer "is compelled to pay a higher price . . . ."[6] This excessive price is an element of the antitrust injury. *See generally Reiter v. Sonotone Corp.*, 442 U.S. 330, 339 (1979).

Respondents' enforcement of the illegally tied contract and their extraction of illegal overcharges thereunder thus imposed antitrust injury on Petitioners during the statutory period. The effort of the Court of Appeals and Respondents to dismiss this injury as merely "pecuniary" injury of no interest to the antitrust laws is mistaken. This Court should grant certiorari to make clear that those who are required to pay excessive prices by illegal tying arrangements are entitled to their statutory remedies under the antitrust laws.

B. The Court Should Grant Certiorari To Resolve The Conflict Among The Circuits.

The Court should also grant certiorari to end the confusion in the lower courts as to the application of the statute of limitations to executory contracts. The cases are all over the lot. As explained in the Petition, the Court of Appeals' decision in this case and a recent decision of the Ninth Circuit[7] hold that continued enforcement of the obligation to make payments under such a contract does not give rise to a cause of action. The *Mangurian* case in the Fifth Circuit,[8] and a decision of

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[6] 104 S. Ct. at 1557 n.15. *See* Petition at 19 & n.18. In this respect, the Court's opinion in *Jefferson Parish* simply reiterated what the lower courts—including at least five circuit courts—have uniformly held for years. *See* Petition at 19-20 & n.19.

[7] *Aurora Enterprises, Inc. v. National Broadcasting Co.*, 688 F.2d 689 (9th Cir. 1982).

[8] *Imperial Point Colonnades Condominium, Inc. v. Mangurian*, 549 F.2d 1029 (5th Cir.), *cert. denied*, 434 U.S. 859 (1977).

the Third Circuit which followed it,[9] are to the contrary. Two other decisions of the Fifth Circuit would restrict *Mangurian* to instances in which the measure of damages for the violation would have been speculative at an earlier time—at least in those cases, unlike this case, in which the defendant takes no steps to enforce the contract during the statutory period.[10] Yet the *Baker* case in the Seventh Circuit holds flatly that antitrust claims continue to accrue so long as the buyer makes, and the seller takes, payments under an unlawful contract.[11]

Respondents' attempt to reconcile the cases simply highlights the confusion. Respondents assert that all the cases are consistent because they adhere to the principle that the timeliness of the suit is determined by "the nature and extent" of defendant's conduct. Opp. at 14-15. Respondents' conduct in this case, however, was no different from the sellers' conduct in *Baker* and *Manguarian*: In all three cases, the sellers enforced the unlawful contracts during the limitations period by requiring the buyers to make the payments called for by the contracts. In *Baker* and *Mangurian*, the courts held that that was enough to enable the buyers to pursue their antitrust remedies, but the Court of Appeals in this case held the opposite. This Court should grant certiorari to resolve the conflict among the Circuits and to end the confusion in this important area of federal law.

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[9] *Harold Friedman Inc. v. Thorofare Markets Inc.*, 587 F.2d 127 (3d Cir. 1978).

[10] *Kaiser Aluminum & Chemical Sales, Inc. v. Avondale Shipyards, Inc.*, 677 F.2d 1045 (5th Cir. 1982), *cert. denied*, 103 S. Ct. 729 (1983); *City of El Paso v. Darbyshire Steel Co.*, 575 F.2d 521 (5th Cir. 1978), *cert. denied*, 439 U.S. 1121 (1979). In *Avondale* the court expressly recognized that filing of a suit to enforce an illegal contract creates a cause of action. 677 F.2d at 1055. In addition, as explained in the Petition, the distinction of *Mangurian* on the ground that the amount of future damages is speculative is equally available in this case. Petition at 18 n.16.

[11] *Baker v. F&F Investment*, 420 F.2d 1191 (7th Cir.), *cert. denied*, 400 U.S. 821 (1970).

CONCLUSION

For the reasons stated above and in the Petition for Certiorari, the writ should be granted.

Respectfully submitted,

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